

**REPORT OF THE AUDIT OF THE
SPENCER COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2009**



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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable David Jenkins, Spencer County Judge/Executive

Members of the Spencer County Fiscal Court

The enclosed report prepared by Rodefer Moss & Co, PLLC, Certified Public Accountants, presents the financial statements of the governmental activities and each major fund of Spencer County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements.

We engaged Rodefer Moss & Co, PLLC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Rodefer Moss & Co, PLLC evaluated the Spencer County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE SPENCER COUNTY FISCAL COURT

June 30, 2009

Rodefer Moss & Co, PLLC has completed the audit of the Spencer County Fiscal Court for fiscal year ended June 30, 2009.

We have issued unqualified opinions on the governmental activities and each major fund of Spencer County, Kentucky.

Financial Condition:

The fiscal court had unrestricted net assets of \$636,656 in its governmental activities as of June 30, 2009, with total net assets of \$2,761,241. The fiscal court had total debt principal as of June 30, 2009 of \$1,566,796 with \$828,316 due within the next year.

Report Comments:

2009-01	Improve Procedures Over Capital Assets
2009-02	Lack Of Adequate Segregation Of Duties Over Receipts And Reconciliations
2009-03	Prepare Reconciliations Of Payroll Taxes And Withholdings Paid On Behalf Of County Clerk's Office
2009-04	Improve Payroll Controls
2009-05	Improve Controls Over Selection Of FEMA Codes
2009-06	Improve Controls For FEMA Reimbursement

Deposits:

The fiscal court deposits were insured and collateralized by a surety bond and bank securities.

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- Certified Public Accountants
 - Business Advisors



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable David Jenkins, Spencer County Judge/Executive
Members of the Spencer County Fiscal Court

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities and each major fund of Spencer County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Spencer County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Spencer County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund, of Spencer County, Kentucky, as of June 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with the modified cash basis of accounting.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable David Jenkins, Spencer County Judge/Executive
Members of the Spencer County Fiscal Court

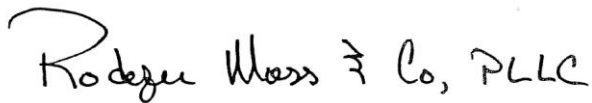
In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2009 on our consideration of Spencer County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Spencer County Fiscal Court's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discussed the following report comments:

- 2009-01 Improve Procedures Over Capital Assets
- 2009-02 Lack Of Adequate Segregation Of Duties Over Receipts And Reconciliations
- 2009-03 Prepare Reconciliations Of Payroll Taxes And Withholdings Paid On Behalf Of County Clerk's Office
- 2009-04 Improve Payroll Controls
- 2009-05 Improve Controls Over Selection Of FEMA Codes
- 2009-06 Improve Controls For FEMA Reimbursement

Respectfully submitted,



Rodefer Moss & Co, PLLC

December 30, 2009

SPENCER COUNTY OFFICIALS

For The Year Ended June 30, 2009

Fiscal Court Members:

David Jenkins	County Judge/Executive
David Henry	Magistrate
Hobert Judd	Magistrate
John Riley	Magistrate
Bill Drury	Magistrate
David Goodlett	Magistrate

Other Elected Officials:

Ruth Ann Hollan	County Attorney
David Houghlin	Jailer
Judy Puckett	County Clerk
Becky M. Robinson	Circuit Court Clerk
Steve Coulter	Sheriff
Kim Stump	Property Valuation Administrator
Roger Thurman	Coroner

Appointed Personnel:

Doug Williams	County Treasurer
Karen Curtsinger	Finance Officer/Deputy Judge



DAVID JENKINS, SPENCER COUNTY JUDGE EXECUTIVE

Spencer County *"A Great Place to Live, Work and Play"*

P.O. Box 397 ~ Taylorsville, KY 40071 ~ (502) 477-3205

Management's Discussion and Analysis June 30, 2009

The financial management of Spencer County, Kentucky offers readers of Spencer County's financial statements this narrative overview and analysis of the financial activities of Spencer County for the fiscal year ended June 30, 2009. We encourage readers to consider the information here in conjunction with other information that has been furnished in our letter of transmission and the notes to the financial statements.

FINANCIAL HIGHLIGHTS

Spencer County had net assets of \$2,761,241 as of June 30, 2009. Unrestricted net assets are \$636,656. \$2,124,585 was invested in capital assets, net of related debt.

At the close of fiscal year 2009 Spencer County's balance sheet reported total fund balance of \$636,656.

FYE 2009 depreciation expense was \$369,391. Net capital asset value as of June 30, 2009 was \$3,691,381.

Spencer County's total indebtedness at the close of fiscal year 2009 was \$1,566,796. Road maintenance is the biggest debt we have. Many new vehicles have been purchased for the road dept., ambulance and sheriff's department.

Spencer County's prisoners are housed in the jails of neighboring counties. This is of some expense (\$25.00/day) but cheaper than building and staffing our own jail.

OVERVIEW OF THE FINANCIAL STATEMENTS

The management discussion and analysis is intended to serve as an introduction to Spencer County's basic financial statements. Spencer County's financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Government-wide Financial Statements are designed to provide readers with a broad overview of Spencer County's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of Spencer County's assets and liabilities with the difference of the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Spencer county is improving or not.

The Statement of Activities presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities.

GOVERNMENT-WIDE FINANCIAL STATEMENTS (Continued)

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues and accounts payable or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the county that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs from user fees and charges. Spencer County's financial activities include general governmental, protection to persons and property, roads, recreation and social services.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Spencer County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with financial related legal requirements. All of the funds of Spencer County can be placed into one broad category: governmental funds.

GOVERNMENTAL FUNDS

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Spencer County maintains three individual governmental funds. Information is presented separately in the governmental balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road Fund, and the Jail Fund.

Spencer County adopts an annual appropriated budget for its major governmental funds. A budgetary comparison statement has been provided for the General, Road, and Jail Funds to demonstrate compliance with their budgets.

Spencer County
Management's Discussion and Analysis
June 30, 2009
(Continued)

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

NET ASSETS. As noted earlier, net assets may serve over time as a useful indicator of the government's financial position.

Comparative Statement - Net Assets

	Governmental Activities		Percentage Change 2008-2009
	2008	2009	
<u>Assets</u>			
Current Assets	\$ 831,295	\$ 636,656	-23.41%
Capital Assets	3,644,733	3,691,381	1.28%
Total Assets	<u>4,476,028</u>	<u>4,328,037</u>	-3.31%
<u>Liabilities</u>			
Current (Due Within One Year)	379,077	828,316	118.51%
Long Term (Due in Excess of One Year)	<u>1,042,781</u>	<u>738,480</u>	-29.18%
Total Liabilities	<u>1,421,858</u>	<u>1,566,796</u>	10.19%
Net Assets			
Invested in Capital Assets, Net of Related Debt	2,222,875	2,124,585	-4.42%
Unrestricted	<u>831,295</u>	<u>636,656</u>	-23.41%
Total Net Assets	<u>\$ 3,054,170</u>	<u>\$ 2,761,241</u>	-9.59%

- Current assets decreased by \$194,639 while total assets decreased by \$147,991.
- Total liabilities increased by \$144,938.
- Investment in capital assets, net of related debt decreased by \$98,290.

Spencer County
Management's Discussion and Analysis
June 30, 2009
(Continued)

CHANGE IN NET ASSETS

Governmental Activities. Net assets decreased by \$292,929 in fiscal year 2009. Key elements of this increase are as follows:

	Govenmental Activities		Percentage Change
	FY 2008	FY 2009	2008-2009
Revenues			
Program Revenues			
Charges for Services	\$ 889,593	\$ 895,759	0.69%
Operating Grants and Contributions	1,429,294	1,457,736	1.99%
Capital Grants and Contributions	144,318	132,940	-7.88%
General Revenues			
Property Taxes	904,962	944,990	4.42%
Other Taxes	497,870	1,027,192	106.32%
Excess Fees	41,559	38,907	-6.38%
In Lieu of Taxes	17,740	39,964	125.28%
Gain on Sale of Capital Assets	2,138	-	-100.00%
Miscellaneous Revenues	142,952	77,451	-45.82%
Interest Received	19,073	8,195	-57.03%
Total Revenues	<u>\$ 4,089,499</u>	<u>\$ 4,623,134</u>	<u>13.05%</u>
Expenses			
General Government	1,987,144	2,017,486	1.53%
Protection to Persons and Property	1,073,088	1,269,135	18.27%
General Health and Sanitation	121,221	133,042	9.75%
Social Services	51,254	46,045	-10.16%
Recreation and Culture	82,059	126,799	54.52%
Roads	507,348	1,130,825	122.89%
Debt Service	167,641	108,563	-35.24%
Capital Projects	74,660	84,168	12.73%
Total Expenses	<u>\$ 4,064,415</u>	<u>\$ 4,916,063</u>	<u>20.95%</u>
Change in Net Assets	<u>\$ 25,084</u>	<u>\$ (292,929)</u>	<u>-1267.79%</u>

- Total revenues were \$4,623,134 as reflected in the Statement of Activities.
- Expenses were \$4,916,063 as reflected in the Statement of Activities.

Spencer County
Management's Discussion and Analysis
June 30, 2009
(Continued)

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

Spencer County Fiscal Court uses fund accounting to insure and demonstrate compliance with finance related legal requirements.

Governmental Funds Overview. The focus is to share information on current inflows, outflows, and balances of spendable reserves. Unreserved fund balance may serve as a useful measure of governmental net resources available for spending at the end of the fiscal year.

At the end of the June 30, 2009 fiscal year, the combined ending fund balance of Spencer County's governmental funds was \$636,656. The financial statements look at three major funds that the county uses: General Fund, Road Fund, and Jail Fund.

1. General Fund ending fund balance was \$406,018. Most of the county's services are provided through this fund. We had to transfer \$240,000 to the jail fund to meet jail budget needs.
2. Road Fund ending fund balance was \$218,367.
3. Jail Fund ending fund balance was \$12,271. We pay jailer and other transport officers to transport our prisoners to the county where they are housed and to get to court. We house our prisoners in almost all surrounding counties.

GENERAL FUND BUDGETARY HIGHLIGHTS

Spencer County's total general fund budget was originally \$3,358,940 for expenditures. Spencer County's general fund budgeted expenditures were amended during the fiscal year increasing the budgeted amount by \$304,400. Total receipts were \$3,683,132. General fund receipts exceeded the budget by \$106,342. The County adopted a 4% insurance premium tax during FYE 2009.

ROAD FUND BUDGETARY HIGHLIGHTS

Spencer County's original road fund budget was \$888,900 for expenditures and was amended during the fiscal year increasing the budgeted amount by \$942,900, with actual road receipts for the year of \$855,685.

JAIL FUND BUDGETARY HIGHLIGHTS

Spencer County's original jail fund budget was \$328,900 for expenditures and was amended during the year increasing the budgeted amount by \$24,100. Actual receipts were \$84,317. \$240,000 was transferred from the general fund to cover our jail fund expenses.

Spencer County
 Management's Discussion and Analysis
 June 30, 2009
 (Continued)

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS (Continued)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets: As of June 30, 2009, capital assets were valued at \$3,691,381 net of accumulated depreciation.

Additional information on the County's capital assets can be found in Note 3 of this report.

Comparative Statement - Capital Assets Net of Accumulated Depreciation

Governmental Activities	FY 2008	FY 2009	Percentage Change 2008-2009
Infrastructure	\$ 960,479	\$ 958,765	-0.18%
Land and Land Improvements	310,530	304,175	-2.05%
Buildings and Building Improvements	1,599,652	1,566,136	-2.10%
Vehicles	140,862	307,890	118.58%
Equipment	633,210	554,415	-12.44%
Total Net Capital Assets	<u>\$ 3,644,733</u>	<u>\$ 3,691,381</u>	<u>1.28%</u>

Long-term Liabilities: As of June 30, 2009, long-term liabilities outstanding were \$1,566,796.

Current Liabilities: As of June 30, 2009, the current portion of long-term liabilities outstanding was \$828,316.

Additional information on the County's long-term debt can be found in Note 4 of this report.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Spencer County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Spencer County Treasurer, P.O. Box 397, Taylorsville, Kentucky 40071.

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SPENCER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

SPENCER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 636,656
Total Current Assets	<u>636,656</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land and Land Improvements	304,175
Buildings and Building Improvements	1,566,136
Equipment	554,415
Vehicles	307,890
Infrastructure	<u>958,765</u>
Total Noncurrent Assets	<u>3,691,381</u>
Total Assets	<u>4,328,037</u>
LIABILITIES	
Current Liabilities:	
Financing Obligations	<u>828,316</u>
Total Current Liabilities	<u>828,316</u>
Noncurrent Liabilities:	
Financing Obligations	<u>738,480</u>
Total Noncurrent Liabilities	<u>738,480</u>
Total Liabilities	<u>1,566,796</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	2,124,585
Unrestricted	<u>636,656</u>
Total Net Assets	<u>\$ 2,761,241</u>

The accompanying notes are an integral part of the financial statements.

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SPENCER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2009

SPENCER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Received</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
General Government	\$ 2,017,486	\$ 268,884	\$ 490,164	\$ 132,940
Protection to Persons and Property	1,269,135	586,982	104,535	
General Health and Sanitation	133,042	23,649	27,888	
Social Services	46,045			
Recreation and Culture	126,799			
Roads	1,130,825	16,244	835,149	
Debt Service	108,563			
Capital Projects	84,168			
Total Governmental Activities	<u>4,916,063</u>	<u>895,759</u>	<u>1,457,736</u>	<u>132,940</u>

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

In Lieu of Taxes

Miscellaneous Revenues

Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

SPENCER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

Net (Expenses)	
Revenues and	
<u>Changes in Net Assets</u>	
<u>Governmental</u>	
<u>Activities</u>	
	.
\$	(1,125,498)
	(577,618)
	(81,505)
	(46,045)
	(126,799)
	(279,432)
	(108,563)
	(84,168)
	<u>(2,429,628)</u>
	.
	813,236
	10,170
	121,584
	1,027,192
	38,907
	39,964
	77,451
	8,195
	<u>2,136,699</u>
	<u>(292,929)</u>
	<u>3,054,170</u>
	.
\$	<u><u>2,761,241</u></u>
	;

The accompanying notes are an integral part of the financial statements.

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SPENCER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

SPENCER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

	General Fund	Road Fund	Jail Fund	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 406,018	\$ 218,367	\$ 12,271	\$ 636,656
Total Assets	<u>\$ 406,018</u>	<u>\$ 218,367</u>	<u>\$ 12,271</u>	<u>\$ 636,656</u>
FUND BALANCES				
Reserved for:				
Encumbrances	\$ 2,462	\$ 46,268	\$	\$ 48,730
Unreserved:				
General Fund	403,556			403,556
Special Revenue Funds		172,099	12,271	184,370
Total Fund Balances	<u>\$ 406,018</u>	<u>\$ 218,367</u>	<u>\$ 12,271</u>	<u>\$ 636,656</u>

Reconciliation of the Balance Sheet - Governmental Funds to Statement of Net Assets:

Total Fund Balances	\$ 636,656
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	5,863,475
Accumulated Depreciation	(2,172,094)
Long-term Debt from Financing Obligations Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	<u>(1,566,796)</u>
Net Assets Of Governmental Activities	<u>\$ 2,761,241</u>

The accompanying notes are an integral part of the financial statements.

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SPENCER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

SPENCER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	General Fund	Road Fund	Jail Fund	Total Governmental Funds
REVENUES				
Taxes	\$ 1,957,342	\$	\$	\$ 1,957,342
In Lieu Tax Payments	39,964			39,964
Excess Fees	38,907			38,907
Licenses and Permits	241,284			241,284
Intergovernmental	686,867	835,149	83,501	1,605,517
Charges for Services	586,982			586,982
Miscellaneous	125,885	18,367	691	144,943
Interest	5,901	2,169	125	8,195
Total Revenues	<u>3,683,132</u>	<u>855,685</u>	<u>84,317</u>	<u>4,623,134</u>
EXPENDITURES				
General Government	1,197,596	39,405		1,237,001
Protection to Persons and Property	1,030,115		302,720	1,332,835
General Health and Sanitation	128,092			128,092
Social Services	42,781			42,781
Recreation and Culture	106,995			106,995
Roads		1,172,539		1,172,539
Debt Service	282,016	186,765		468,781
Capital Projects	84,168			84,168
Administration	525,930	207,353	16,453	749,736
Total Expenditures	<u>3,397,693</u>	<u>1,606,062</u>	<u>319,173</u>	<u>5,322,928</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>285,439</u>	<u>(750,377)</u>	<u>(234,856)</u>	<u>(699,794)</u>
Other Financing Sources (Uses)				
Financing Obligation Proceeds		505,156		505,156
Transfers From Other Funds	200,000	200,000	240,000	640,000
Transfers To Other Funds	(440,000)	(200,000)		(640,000)
Total Other Financing Sources (Uses)	<u>(240,000)</u>	<u>505,156</u>	<u>240,000</u>	<u>505,156</u>
Net Change in Fund Balances	45,439	(245,221)	5,144	(194,638)
Fund Balances - Beginning	360,579	463,588	7,127	831,294
Fund Balances - Ending	<u>\$ 406,018</u>	<u>\$ 218,367</u>	<u>\$ 12,271</u>	<u>\$ 636,656</u>

The accompanying notes are an integral part of the financial statements.

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**SPENCER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2009

SPENCER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES –
MODIFIED CASH BASIS

For the Year Ended June 30, 2009

Net Change in Fund Balances - Total Governmental Funds	\$ (194,638)
Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of Those Assets is Allocated Over their Estimated Useful Lives and Reported as Depreciation Expense.	
Capital Outlay	431,413
Depreciation Expense	(369,391)
Net Book Value of Capital Assets Disposed	(15,374)
Financing Obligation Proceeds Provide for Current Financial Resources to Governmental Funds While Principal Payments Are Expensed in the Governmental Funds As a Use of Current Financial Resources. These Transactions Have No Effect on Net Assets and Have Been Removed From the Statement of Activities.	
Financing Obligation Proceeds	(505,156)
Financing Obligations Principal Amount	<u>360,218</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (292,928)</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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**SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS**

June 30, 2009

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Spencer County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. The County has no blended or discretely presented component units.

C. Spencer County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Spencer County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Spencer County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Spencer County does not have any business-type activities to report in its financial statements.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

**SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Special Revenue Funds:

The Road Fund and Jail Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-50
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary funds in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Related Organizations and Joint Ventures

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Spencer County Fiscal Court: The Spencer County Tourism Commission and the Spencer County Library.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Spencer County Fiscal Court and the City of Taylorsville: Taylorsville-Spencer County Community Industrial Development Authority.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposit may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 204,600	\$	\$	\$ 204,600
Total Capital Assets Not Being Depreciated	204,600			204,600
Capital Assets, Being Depreciated:				
Buildings and Building Improvements	2,010,660			2,010,660
Equipment	931,308		(30,982)	900,326
Vehicles	816,757	278,503	(23,925)	1,071,335
Land Improvements	130,312			130,312
Infrastructure	1,393,332	152,910		1,546,242
Total Capital Assets Being Depreciated	5,282,369	431,413	(54,907)	5,658,875
Less Accumulated Depreciation For:				
Buildings and Building Improvements	(411,008)	(33,516)		(444,524)
Equipment	(298,098)	(68,135)	20,322	(345,911)
Vehicles	(675,895)	(106,761)	19,211	(763,445)
Land Improvements	(24,382)	(6,355)		(30,737)
Infrastructure	(432,853)	(154,624)		(587,477)
Total Accumulated Depreciation	(1,842,236)	(369,391)	39,533	(2,172,094)
Total Capital Assets, Being Depreciated, Net	3,440,133	62,022	(15,374)	3,486,781
Governmental Activities Capital Assets, Net	\$ 3,644,733	\$ 62,022	\$ (15,374)	\$ 3,691,381

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 35,748
Protection to Persons and Property	60,030
General Health and Sanitation	1,862
Social Services	3,264
Recreation and Culture	19,804
Roads, Including Depreciation of General Infrastructure Assets	<u>248,683</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 369,391</u>

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

Note 4. Long-term Debt

A. Financing Obligation - Courthouse Renovation

On September 21, 2001, Spencer County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$900,625. The purpose of the financing was for the renovation of the courthouse. The term for this agreement was 10 years with the balance to be paid in full January 20, 2011. The Administrative Office of the Courts (AOC) pays \$29,850 directly to the trustee for KACoLT, National City Bank each February and August. The principal balance was \$214,115 as of June 30, 2009. The following table shows the scheduled remaining interest and principal amounts due.

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Principal	Scheduled Interest
2010	\$ 104,635	\$ 8,000
2011	109,480	2,996
Totals	<u>\$ 214,115</u>	<u>\$ 10,996</u>

B. Financing Obligation - Building Renovation

On July 7, 2005, Spencer County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$250,000. The purpose of the financing was for the renovation of a building for use as an office for the planning and zoning department and for use as the fiscal court meeting room. The term for this agreement was 15 years with the balance to be paid in full July 20, 2020. The principal balance was \$215,000 as of June 30, 2009. The following table shows the scheduled remaining interest and principal amounts due.

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Principal	Scheduled Interest
2010	\$ 15,000	\$ 7,823
2011	15,000	7,255
2012	15,000	6,700
2013	15,000	6,133
2014	15,000	5,590
2015-2019	95,000	17,587
2020-2021	45,000	1,390
Totals	<u>\$ 215,000</u>	<u>\$ 52,478</u>

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

Note 4. Long-term Debt (Continued)

C. Financing Obligation - Road Equipment

On April 26, 2007, Spencer County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$144,000. The purpose of the financing was for the purchase of a patcher, 6,000-gallon tank, and a truck. The term for this agreement was 11 years with the balance to be paid in full July 20, 2017. The principal balance was \$124,000 as of June 30, 2009. The following table shows the scheduled remaining interest and principal amounts due.

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Principal	Scheduled Interest
2010	\$ 10,000	\$ 6,054
2011	10,000	5,544
2012	10,000	5,052
2013	15,000	4,303
2014	15,000	3,545
2015-2018	64,000	6,177
Totals	<u>\$ 124,000</u>	<u>\$ 30,675</u>

D. Financing Obligation - Vehicle

On July 20, 2007, Spencer County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$98,525. The purpose of the financing was for the purchase of a Mack truck. The term for this agreement was 18 months with the balance to be paid in full January 20, 2009. The principal balance was \$98,525 as of June 30, 2008. The balance, including principal plus accrued interest was subsequently refinanced effective September 5, 2008. The principal balance was \$103,681 as of June 30, 2009 and represents an increase of \$5,156 over the prior year. The following table shows the scheduled remaining interest and principal amounts due.

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Principal	Scheduled Interest
2010	\$ 103,681	\$ 3,757
Totals	<u>\$ 103,681</u>	<u>\$ 3,757</u>

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

Note 4. Long-term Debt (Continued)

E. Financing Obligation - Road Maintenance

On September 17, 2007, Spencer County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$500,000. The purpose of the financing was for road maintenance. The term for this agreement was 5 years with the balance to be paid in full July 20, 2012. The principal balance was \$410,000 as of June 30, 2009. The following table shows the scheduled remaining interest and principal amounts due.

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Principal	Scheduled Interest
2010	\$ 95,000	\$ 16,000
2011	100,000	11,495
2012	105,000	6,286
2013	110,000	495
Totals	<u>\$ 410,000</u>	<u>\$ 34,276</u>

F. Financing Obligation - Road Maintenance

On October 27, 2008, Spencer County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$500,000. The purpose of the financing was for payment of contractors for repairs to roads and other County infrastructure due to weather related damages. The term for this agreement was 1 years with the balance to be paid in full October 20, 2010. The principal balance was \$500,000 as of June 30, 2009. The following table shows the scheduled remaining interest and principal amounts due.

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Principal	Scheduled Interest
2010	\$ 500,000	\$ 6,224
Totals	<u>\$ 500,000</u>	<u>\$ 6,224</u>

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

Note 4. Long-term Debt (Continued)

G. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Financing Obligations	\$ 1,421,858	\$ 505,156	\$ 360,218	\$ 1,566,796	\$ 828,316
Governmental Activities Long-term Liabilities	<u>\$ 1,421,858</u>	<u>\$ 505,156</u>	<u>\$ 360,218</u>	<u>\$ 1,566,796</u>	<u>\$ 828,316</u>

Note 5. Interest On Long-term Debt and Financing Obligations

The Statement of Activities includes \$103,407 in interest on long term debt and financing obligations which has been presented as Debt Service.

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 29.50 percent.

The county's contribution for FY 2008 was \$396,087, and FY 2009 was \$365,460, respectively and represents the required contributions.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must met the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

Note 6. Employee Retirement System (Continued)

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Insurance

For the fiscal year ended June 30, 2009, Spencer County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

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SPENCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009

SPENCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,788,000	\$ 1,846,000	\$ 1,957,342	\$ 111,342
In Lieu Tax Payments	14,000	14,000	39,964	25,964
Excess Fees	10,000	38,900	38,907	7
Licenses and Permits	236,000	253,700	241,284	(12,416)
Intergovernmental	624,090	767,990	686,867	(81,123)
Charges for Services	523,000	523,000	586,982	63,982
Miscellaneous	102,800	128,200	125,885	(2,315)
Interest	5,000	5,000	5,901	901
Total Revenues	<u>3,302,890</u>	<u>3,576,790</u>	<u>3,683,132</u>	<u>106,342</u>
EXPENDITURES				
General Government	1,218,820	1,310,366	1,197,596	112,770
Protection to Persons and Property	907,371	1,055,167	1,030,115	25,052
General Health and Sanitation	147,000	137,600	128,092	9,508
Social Services	29,900	65,050	42,781	22,269
Recreation and Culture	98,500	119,982	106,995	12,987
Debt Service	297,800	311,350	282,016	29,334
Capital Projects	75,000	100,900	84,168	16,732
Administration	584,549	562,925	525,930	36,995
Total Expenditures	<u>3,358,940</u>	<u>3,663,340</u>	<u>3,397,693</u>	<u>265,647</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(56,050)</u>	<u>(86,550)</u>	<u>285,439</u>	<u>371,989</u>
OTHER FINANCING SOURCES (USES)				
Borrowed Money	3,000	3,000		(3,000)
Financing Obligation Proceeds				
Transfers from Other Funds			200,000	200,000
Transfers To Other Funds	<u>(246,950)</u>	<u>(266,950)</u>	<u>(440,000)</u>	<u>(173,050)</u>
Total Other Financing Sources (Uses)	<u>(243,950)</u>	<u>(263,950)</u>	<u>(240,000)</u>	<u>23,950</u>
Net Changes in Fund Balance	(300,000)	(350,500)	45,439	395,939
Fund Balance - Beginning	<u>300,000</u>	<u>350,500</u>	<u>360,579</u>	<u>10,079</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 406,018</u>	<u>\$ 406,018</u>

SPENCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 827,200	\$ 856,500	\$ 835,149	\$ (21,351)
Miscellaneous	1,500	3,100	18,367	15,267
Interest	10,000	10,000	2,169	(7,831)
Total Revenues	838,700	869,600	855,685	(13,915)
EXPENDITURES				
General Government	36,421	39,671	39,405	266
Roads	622,079	1,259,954	1,172,539	87,415
Debt Service	60,100	302,900	186,765	116,135
Administration	170,300	229,275	207,353	21,922
Total Expenditures	888,900	1,831,800	1,606,062	225,738
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(50,200)	(962,200)	(750,377)	211,823
OTHER FINANCING SOURCES (USES)				
Borrowed Money	200	200		(200)
Financing Obligation Proceeds		500,000	505,156	5,156
Transfers to Other Funds			(200,000)	(200,000)
Transfers From Other Funds			200,000	200,000
Total Other Financing Sources (Uses)	200	500,200	505,156	4,956
Net Changes in Fund Balance	(50,000)	(462,000)	(245,221)	216,779
Fund Balance - Beginning	50,000	462,000	463,588	1,588
Fund Balance - Ending	\$ 0	\$ 0	\$ 218,367	\$ 218,367

SPENCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 78,350	\$ 78,350	\$ 83,501	\$ 5,151
Miscellaneous	200	200	691	491
Interest	400	400	125	(275)
Total Revenues	78,950	78,950	84,317	5,367
EXPENDITURES				
Protection to Persons and Property	310,300	333,775	302,720	31,055
Administration	18,600	19,225	16,453	2,772
Total Expenditures	328,900	353,000	319,173	33,827
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(249,950)	(274,050)	(234,856)	39,194
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	246,950	266,950	240,000	(26,950)
Total Other Financing Sources (Uses)	246,950	266,950	240,000	(26,950)
Net Changes in Fund Balance	(3,000)	(7,100)	5,144	12,244
Fund Balance - Beginning	3,000	7,100	7,127	27
Fund Balance - Ending	\$ 0	\$ 0	\$ 12,271	\$ 12,271

**SPENCER COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2009

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**SPENCER COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For The Year Ended June 30, 2009

SPENCER COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information

For The Year Ended June 30, 2009

<u>Federal Grantor/Pass- Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Award Expended</u>
U.S Department of Homeland Security			
Passed through the Kentucky Department of Military Affairs			
Disaster Grant – Public Assistance	97.036	DR - 1757	\$ 514,870
Presidentially Declared Disaster		DR - 1818	<u>103,343</u>
		Total Expenditures of Federal Awards	<u>\$ 618,213</u>

SPENCER COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information

June 30, 2009

NOTE 1. Basis of Presentation

OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, requires a Schedule of Expenditures of Federal Awards ("SEFA") showing each federal financial assistance program identified in the Catalog of Federal Domestic Assistance ("CFDA"). The accompanying schedule includes all federal grant activity of Spencer County Fiscal Court and is presented on the modified cash basis of accounting.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

- Certified Public Accountants
- Business Advisors



The Honorable David Jenkins, Spencer County Judge/Executive
Members of the Spencer County Fiscal Court

Report On Internal Control Over Financial Reporting And On Compliance
And Other Matters Based On An Audit Of Financial Statements Performed
In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities and each major fund of Spencer County, Kentucky as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements and have issued our report thereon dated December 30, 2009. Spencer County prepares its financial statements in accordance with the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Spencer County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Spencer County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Spencer County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and questioned costs 2009-01, 2009-02, 2009-03, and 2009-04, to be significant deficiencies in internal control over financial reporting.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of internal of internal control over financial reporting was for the limited purpose described the first paragraph of this section and would not necessarily disclose all significant deficiencies in internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that were also considered to be material weaknesses. However, we believe that of the significant deficiencies noted above, 2009-01 and 2009-02 are material weaknesses.

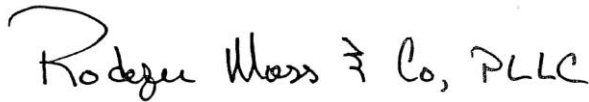
Compliance And Other Matters

As part of obtaining reasonable assurance about whether Spencer County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Spencer County Judge/Executive's responses to the findings identified in our audit are included in the schedule of findings and questioned costs. We did not audit the Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Spencer County Fiscal Court, the Department for Local Government, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Rodefer Moss & Co, PLLC". The signature is written in a cursive, flowing style.

Rodefer Moss & Co, PLLC

December 30, 2009

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

- Certified Public Accountants
- Business Advisors



**Report On Compliance With Requirements Applicable
To Each Major Program And On Internal Control Over
Compliance In Accordance With OMB Circular A-133**

To the Honorable David Jenkins, Spencer County Judge/Executive
Members of the Spencer County Fiscal Court

Compliance

We have audited the compliance of the Spencer County Fiscal Court with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2009. Spencer County Fiscal Court's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Spencer County Fiscal Court's management. Our responsibility is to express an opinion on Spencer County Fiscal Court's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Spencer County Fiscal Court's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Spencer County Fiscal Court's compliance with those requirements.

In our opinion, Spencer County Fiscal Court, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which we are required to report in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2009-04, 2009-05 and 2009-06.

Internal Control Over Compliance

The management of Spencer County Fiscal Court is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Spencer County Fiscal Court's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Spencer County Fiscal Court's internal control over compliance.

Report On Compliance With Requirements Applicable
To Each Major Program And On Internal Control Over
Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2009-04, 2009-05, and 2009-06 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We do not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

The Spencer County Judge/Executive's responses to the findings identified in our audit are included in the schedule of findings and questioned costs. We did not audit the Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, members of the Spencer County Fiscal Court, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Rodefer Moss & Co, PLLC". The signature is written in a cursive, flowing style.

Rodefer Moss & Co, PLLC

December 30, 2009

**SPENCER COUNTY FISCAL COURT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended June 30, 2009

**SPENCER COUNTY FISCAL COURT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year Ended June 30, 2009

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities and each major fund of the Spencer County Fiscal Court.
2. Four significant deficiencies were disclosed during the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards . Two of the deficiencies are reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of Spencer County Fiscal Court, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. Three significant deficiencies in internal control over major federal award programs disclosed during the audit are reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133. The deficiencies are not reported as material weaknesses.
5. The auditor's report on compliance for the major federal award program for Spencer County Fiscal Court expresses an unqualified opinion on the major federal program.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in Part C of this Schedule.
7. The program tested as a major program included: Disaster Grant – Public Assistance, Presidentially Declared Disaster, and CFDA 97.036.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Spencer County Fiscal Court did not qualify as a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

INTERNAL CONTROL - MATERIAL WEAKNESSES

2009-01 Improve Procedures Over Capital Assets

Pursuant to KRS 68.210, the Finance Officer or Treasurer is required by the State Local Finance Officer Policy Manual, to prepare and maintain adequate fixed asset records that provide the information necessary to: Report cost and basis of valuation, determine the adequacy of insurance coverage, maintain control of county property and provide a guide for long range planning for property replacement.

We recommend that the Fiscal Court maintain the fixed assets records in accordance with KRS 68.210 and that the Fiscal Court formally adopt an asset capitalization policy.

County Judge/Executive David Jenkins Response: We have this, it was just not in the order that the auditors wanted.

Auditor's Reply: The fiscal court was unable to provide us with a prepared schedule of capital assets that had been maintained in accordance with the KRS.

Spencer County Fiscal Court
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES (Continued)

2009-02 Lack Of Adequate Segregation Of Duties Over Receipts And Reconciliations

The Treasurer is responsible for collection of receipts, preparation of deposits, dispersing funds and reconciling cash accounts resulting in a lack of segregation of duties that could result in the misappropriation of assets.

We recommend separating duties related to receipts and disbursements and that someone other than those individuals review the monthly bank reconciliations, noting their review by signing or initialing the reconciliation.

County Judge/Executive David Jenkins Response: We are a small county, and we are not financially able to hire the required amount of personnel to facilitate this type of segregation.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES

2009-03 Prepare Reconciliations Of Payroll Taxes And Withholdings Paid On Behalf Of The County Clerk's Office

Through an agreement with the County Clerk, the Fiscal Court pays the employer payroll taxes for the employees of the County Clerk's office. The County Clerk prepares her payroll and submits the employee withholdings to the Treasurer. The treasurer prepares and submits the payroll tax returns. We noted that the Treasurer does not reconcile the withholdings submitted by the County Clerk to those calculated on the payroll tax returns to ensure that the County Clerk has reimbursed the County for the appropriate withholdings.

We recommend that the Treasurer reconcile the withholdings submitted by the County Clerk to those calculated on the payroll tax returns to ensure that the County is being fully reimbursed by the County Clerk.

County Judge/Executive David Jenkins Response: Treasurer will work with the Clerk to reconcile withholdings.

2009-04 Improve Payroll Controls

See Section C. Findings and Questioned Costs - Major Federal Award Programs Audit for entire audit comment.

**Spencer County Fiscal Court
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009
(Continued)**

**C. FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES (Continued)

2009-04 Improve Payroll Controls

Federal Program: CFDA# 97.036 - Disaster Grant - Public Assistance Presidentially Declared Disasters
Federal Agency: U.S. Department of Homeland Security
Pass-Through Agency: Kentucky Department of Military Affairs
Compliance: Activities Allowed or Unallowed, Allowable Costs/Cost Principles.
Amount of Questioned Costs: \$191

During the testing of the recalculation of labor costs for FEMA projects, it was noted that hours for 14 of the 21 employees selected for testing either contained mathematical errors or there was inconsistent application of time worked.

Straight-line or regular time salaries and benefits of a subgrantee's permanently employed personnel are not eligible in calculating the cost of eligible work for emergency protective services or debris removal under sections 403 and 407 of the Stafford Act. For performance of permanent restoration under section 406 of the Stafford Act, straight-line salaries and benefits of a subgrantee's permanently employed personnel are eligible.

Spencer County Fiscal Court should consistently apply their policies for timekeeping and also implement a control to ensure proper calculation of payroll costs.

County Judge/Executive David Jenkins Response: This has been addressed with the employees.

2009-05 Improve Controls Over Selection Of FEMA Codes

Federal Program: CFDA# 97.036 - Disaster Grant - Public Assistance Presidentially Declared Disasters
Federal Agency: U.S. Department of Homeland Security
Pass-Through Agency: Kentucky Department of Military Affairs
Compliance: Activities Allowed or Unallowed, Allowable Costs/Cost Principles.
Amount of Questioned Costs: \$0

The auditor was unable to determine if the proper equipment codes were used for FEMA project accounting and if proper equipment rates were submitted to FEMA for project costs. The subgrantee did not maintain adequate records to support equipment specifics including size and/or horsepower.

Equipment codes used for FEMA project accounting are very specific and outlined by FEMA on its website.

Spencer County Fiscal Court should review FEMA requirements and maintain the required specifics on equipment in order to ensure that proper equipment codes are used.

County Judge/Executive David Jenkins Response: The proper codes were used and stated on the Force Account Equipment summary report submitted to FEMA.

Auditor's Reply: While the proper equipment codes may have been used, appropriate documentation was not maintained in order for us to make that determination.

**Spencer County Fiscal Court
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009
(Continued)**

**C. FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS
AUDIT (Continued)**

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES (Continued)

2009-06 Improve Controls For FEMA Reimbursement

Federal Program: CFDA# 97.036 - Disaster Grant - Public Assistance Presidentially Declared Disasters
Federal Agency: U.S. Department of Homeland Security
Pass-Through Agency: Kentucky Department of Military Affairs
Compliance: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management
Amount of Questioned Costs: \$0

During the testing of labor costs for FEMA projects, the following was noted:

- 2 employees had overtime hours which were eligible for reimbursement under the FEMA grant but not requested for reimbursement.
- 8 hours of time for one employee was included on the project worksheet, however, no corresponding time was noted on the employee's time sheet.
- Hourly rates used to determine labor costs for reimbursement were calculated using 2 days vacation time rather than 6 days as documented in the employee policy manual.

Straight-line or regular time salaries and benefits of a subgrantee's permanently employed personnel are not eligible in calculating the cost of eligible work for emergency protective services or debris removal under sections 403 and 407 of the Stafford Act. For performance of permanent restoration under section 406 of the Stafford Act, straight-line salaries and benefits of a subgrantee's permanently employed personnel are eligible.

The subgrantee did not include overtime hours for 2 employees on the project worksheets, included 8 hours which was not eligible and inadvertently used the incorrect number of vacation days to calculate eligible compensation.

The subgrantee included some eligible costs, excluded some ineligible costs and incorrectly calculated other costs on the project worksheets for reimbursement under the FEMA grant.

Spencer County Fiscal Court should check its calculated personnel costs to ensure all costs are appropriately included or excluded on the project worksheets.

County Judge/Executive David Jenkins Response: This overtime was not a part of the ice storm, so therefore could not be requested for reimbursement.

Auditor's Reply: Based upon the payroll data that was made available for our review, the overtime hours for the two employees during the time period of the ice storm were eligible for reimbursement; however, these hours were not included on the project worksheets.

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None.

